

21 OCT 2004

DATE RECEIVED



Queensland
Government

State Development and Innovation

Please quote: MN=59404 / 10-16-1
Contact officer: Nicole Randall
Contact telephone: 3224 7724

20 OCT 2004

Mr E J Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Hall

Thank you for providing the Department of State Development and Innovation with the opportunity of commenting on the Issues Paper "Efficiency Carryover Mechanism".

Please find attached a copy of the Department's comments. If you have any questions, please contact Nicole Randall, Cabinet and Legislation and Liaison Officer on telephone 3224 7724.

Yours sincerely

A handwritten signature in black ink, appearing to read "Paul Fennelly".

Paul Fennelly
Director-General

Encl.

Release of Issues Paper on Efficiency Carryover Mechanism (ECM)

Comments from the Department of State Development and Innovation:

The Industry Development and Small Business group of the Department support the implementation of an ECM based upon the rollover method.

It should be highlighted that there are other 'incentive-based' options available for the efficient management of infrastructure services that may come from internal organisational and management performance arrangements. The point is that an ECM is not a prerequisite for achieving efficiency gains in businesses but rather is a mechanism available for apportioning efficiency gains between providers and users.

In some cases, efficiency gains may not necessarily need to be translated into flow-on costs to consumers particularly where the services being provided already represent value for money, in which case the economic benefits may be better invested in infrastructure.

Given the differences in the structure and innovative capacities and limitations of various sectors (eg water, energy, ports, rail), the proposed ECM should recognise these differences and the formula for apportioning efficiency gains should be tailored accordingly.

There are cases of service providers receiving 'windfall gains' that are the result of external factors and not due to good business management. An example is the result of the application of the Government's Gas Electricity Certificate Scheme in the Mica Creek power grid at Mount Isa which has resulted in a \$10/mW hour windfall to CS Energy that appears unlikely to be shared with consumers.

Where the Queensland Competition Authority (QCA) has a role in determining infrastructure charging rates for the provision of infrastructure services, it would be reasonable to include a mechanism to require providers to pass on efficiency gains and benefits to consumers and/or require that there be an adequate level of new investment in infrastructure aimed at an improved standard of service.

In the development of an ECM, the QCA should ensure that its administration does not impose any unnecessary or unreasonable costs on the service providers.

For consultation purposes please include the following names, Donn Berghofer, Director, Research and Policy, Smart State Policy and Planning, on telephone 3224 2020, Matthew Grant, Project Manager, Infrastructure and Development Planning on telephone 3225 8770 and Phil Jardie, Manager, Sugar and Ethanol Sectoral Development on telephone 3405 5488.